



# World Bank (IDA) Guarantee Support For Catalyzing Private Financing

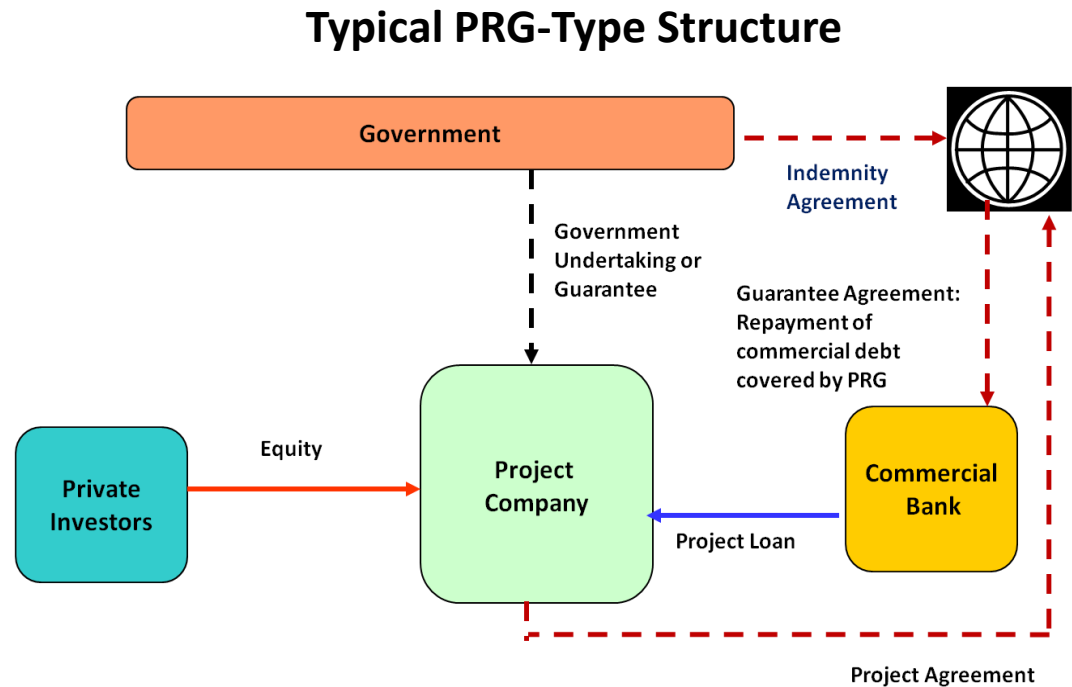
The World Bank  
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# World Bank Support for IDA Countries

- **World Bank** support client countries with a variety of instruments and services. Major support modality includes:
  - **Sector policy reform and dialogue:** IDA credits (DPO) and Policy-Based Guarantee (credit guarantee) for fiscal support; TA/grants and strategic advices
  - **Public sector projects:** IDA credits and Guarantees (credit guarantee) to help Government/SOEs to finance projects
  - **Private sector projects:** Guarantees (risk guarantee) covering government risks to make projects bankable/more attractive and facilitate financing
  - **Climate change/low-carbon projects:** all the above + grants (e.g. GEF, CTF) to buy down technology
  - **Knowledge dissemination**
- As to **private sector projects**, World Bank often works with its sister institutions of the **World Bank Group (WBG)**, IFC & MIGA
  - **IFC (International Finance Corporation)** provides loans & equity; also offers **Transaction Advisory Services** to governments on the bidding of PPP
  - **MIGA (Multilateral Investment Guarantee Agency)** provides political risk insurance (PRI)

# World Bank Guarantees: Partial Risk Coverage Types for PPPs/private sector transactions

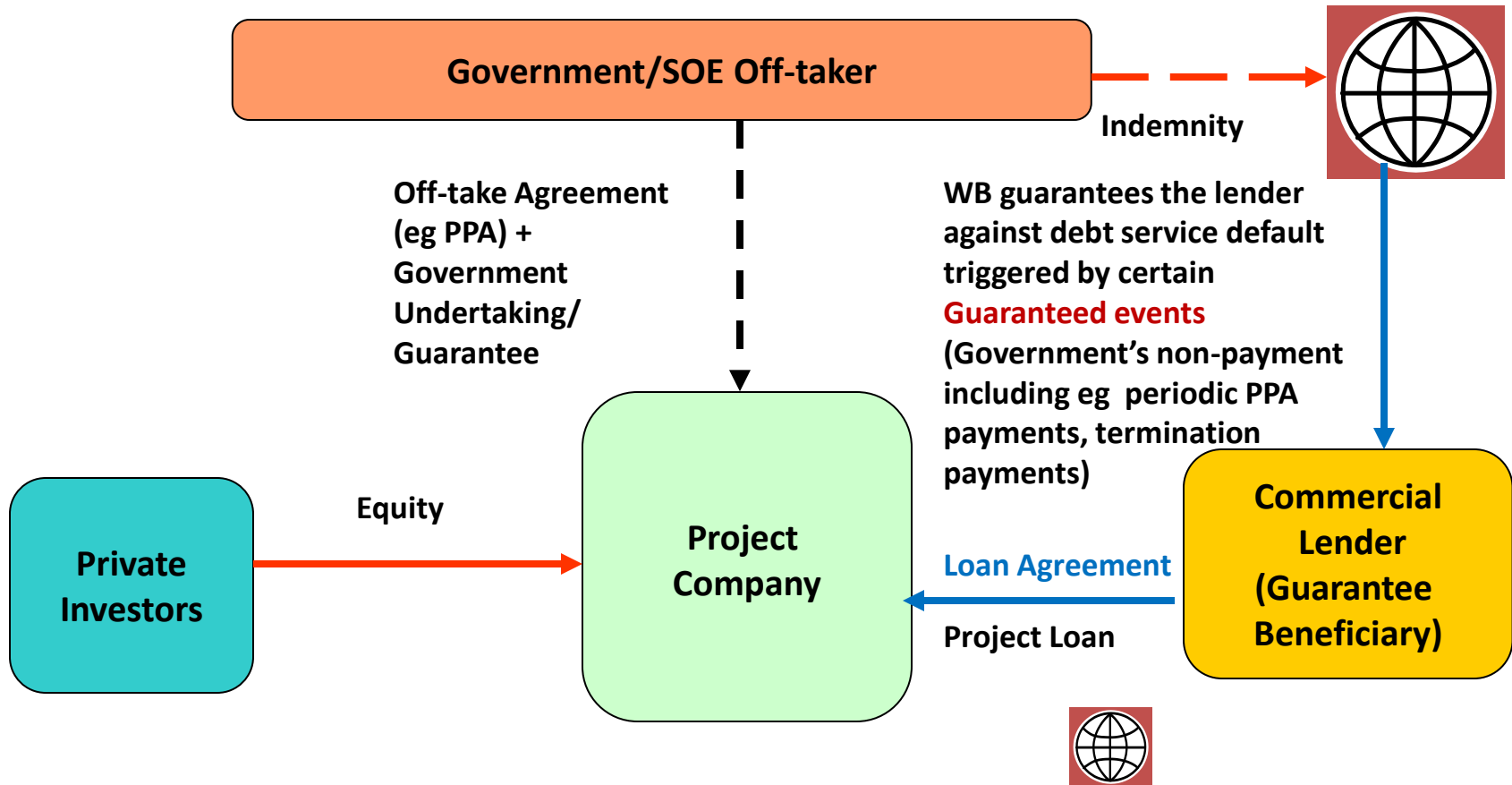
- **Guarantee covers lenders** against the **risk of Government non-performance of its contractual obligations** to a specific project, such as the risk of non-payment by Government/SOE, change in law/regulatory risk, expropriation risk, etc.



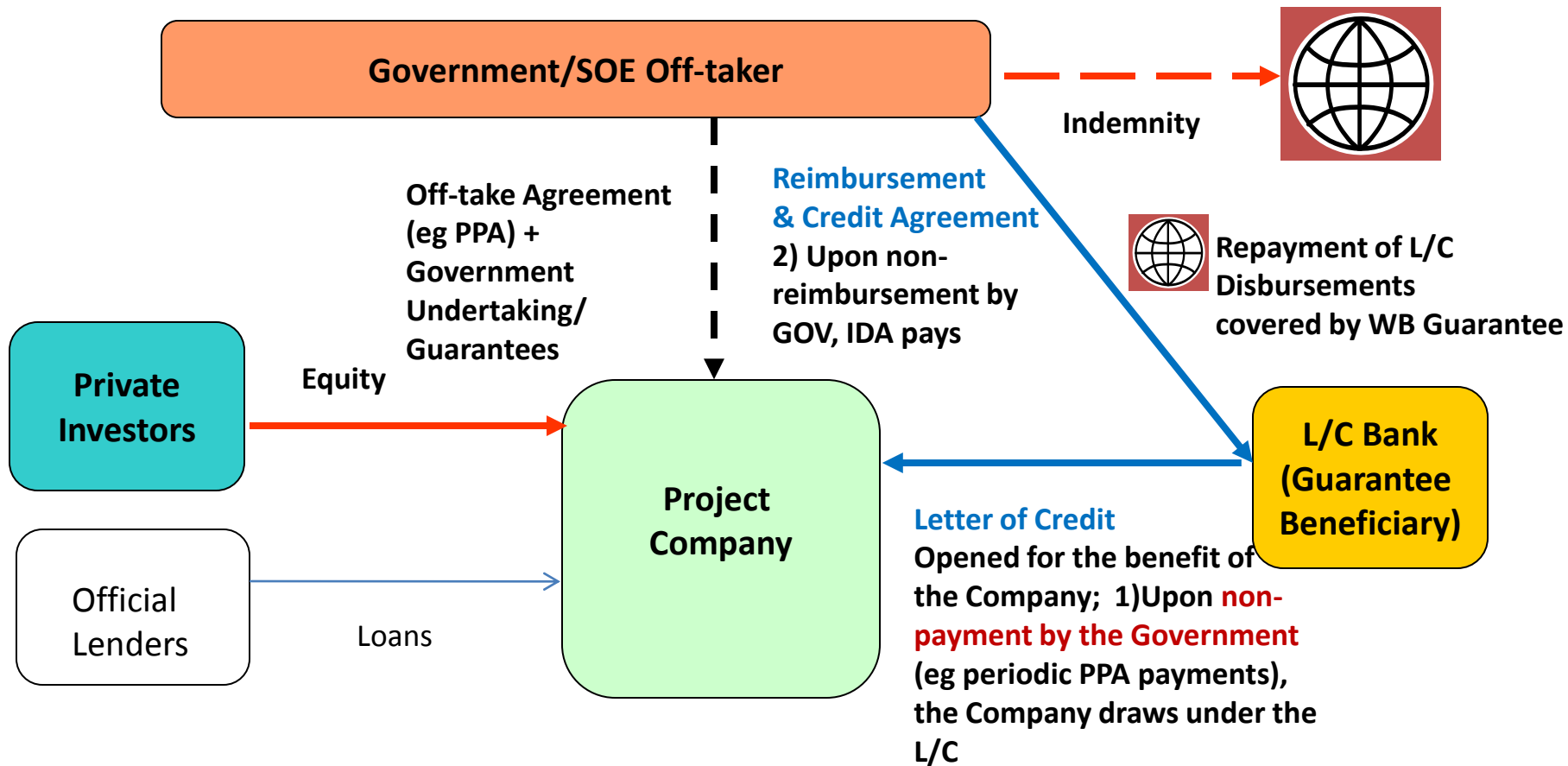
- Guarantee reduces project risk for private financiers, and thus improve bankability of the project to enable/facilitate financing, reduce cost of capital and extend debt tenor to better meet project needs; may be structured as hybrid guarantee (with PCG element)
- World Bank PRGs are often provided to **Public-Private Partnership** projects along with **MIGA political risk insurance** and **IFC loan/equity investments**

# World Bank (IDA) Guarantee Loan Guarantee

## For Limited-Recourse Commercial Debt or Sponsor Loan



# World Bank (IDA) Guarantee Payment Guarantee Sample Structure with Letter of Credit



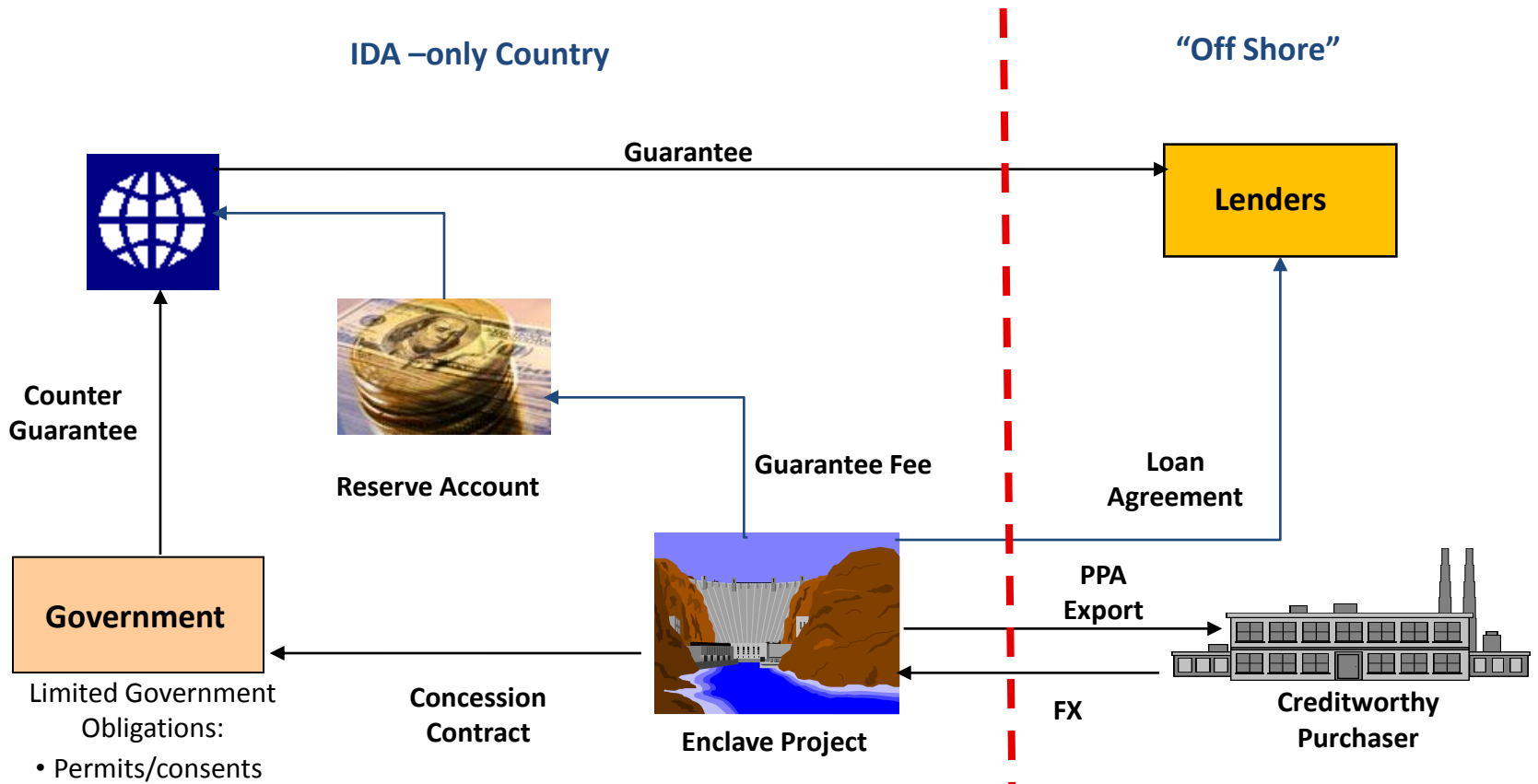
Note: The provision of WB Guarantee will *indirectly* benefit equity investors and lenders, facilitating the mobilization of financing to the project

# IBRD “Enclave” Support for Export Projects in IDA Countries

## Typical IBRD Enclave Guarantee

### Laos: Nam Theun 2 Power Project (could have been Enclave)

\*IBRD Enclave Guarantee only covers host country government risks



\*Lenders require security arrangement as customary for this type of project financing which is not shown in the chart.

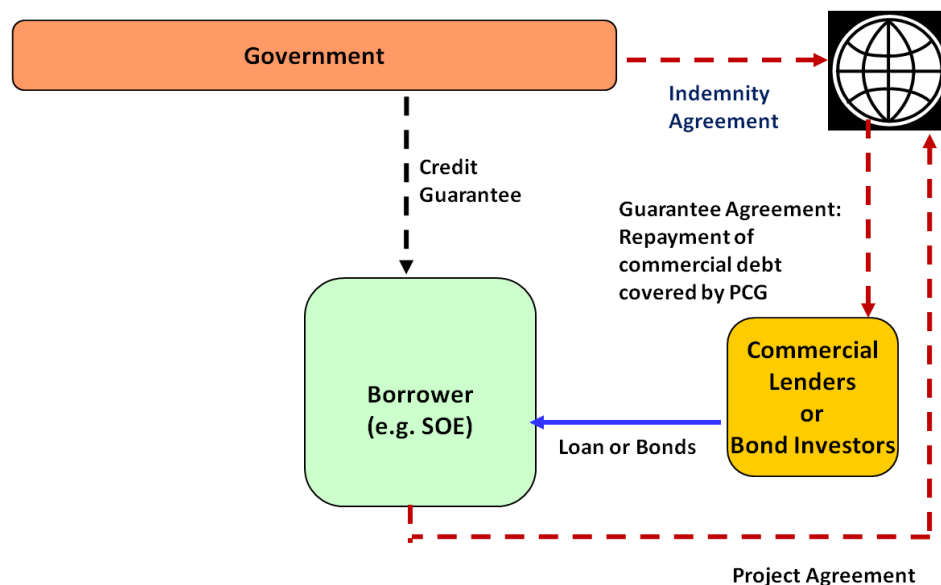
# World Bank Guarantees: Partial Credit Coverage Types for fiscal support or public projects

- **Guarantee covers part of debt services** to lenders or bond holders **regardless the cause of default**

- Can be offered for Government (project-based/policy-based); or SOE, FI and other borrower, so long as there is a sovereign counter-guarantee (project-based)

- By covering part of debt services, **World Bank Guarantee improves terms of commercial debt** by extending maturity, lowering interest rate costs, increasing issue amount and/or enabling access to new markets (loans & bonds), making commercial debt more suitable for development support (e.g. infrastructure projects, budgetary financing)

## Typical PCG Type Structure



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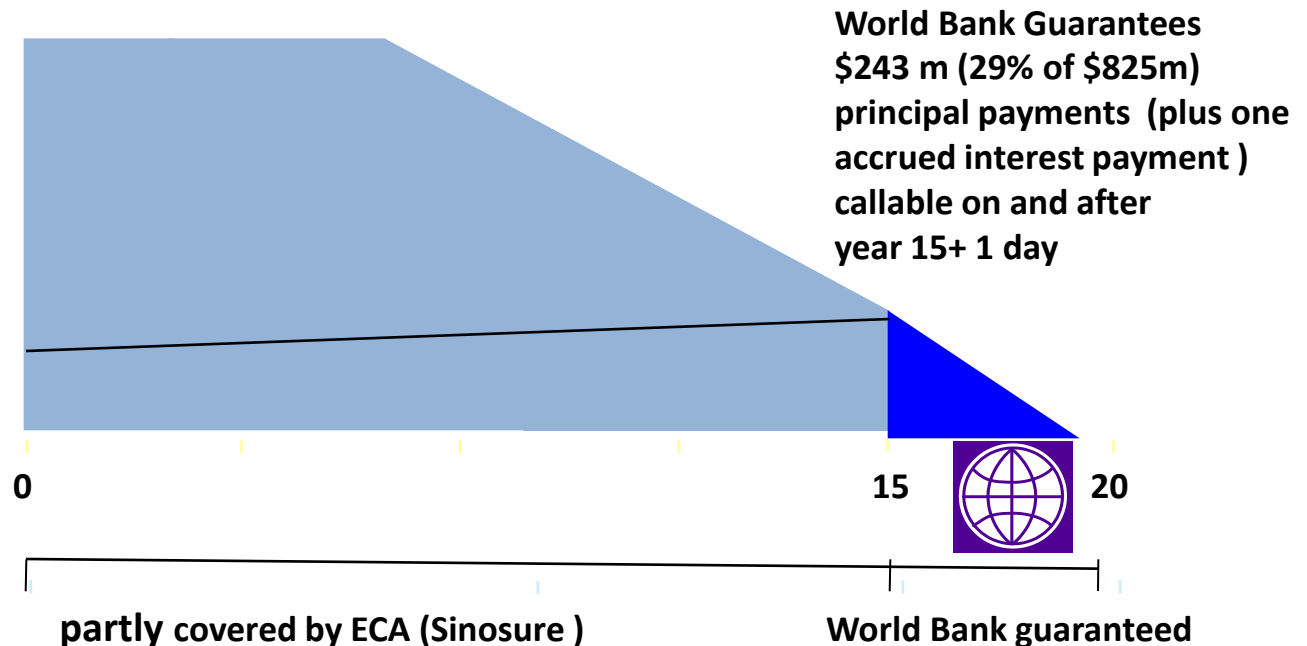
# World Bank Guarantees help government & SOE's access to the commercial debt markets (syndicated loans, bonds)

## Botswana: Morupule B Power Generation Project

World Bank PCG helped  
mobilize \$825 million  
commercial loan with 20-  
year maturity

- World Bank exposure under  
the PCG is \$120m (present  
value of the PCG)

- Only \$30m (25% of \$120m)  
to be charged to country  
exposure limit  
(new ruling after CY10)

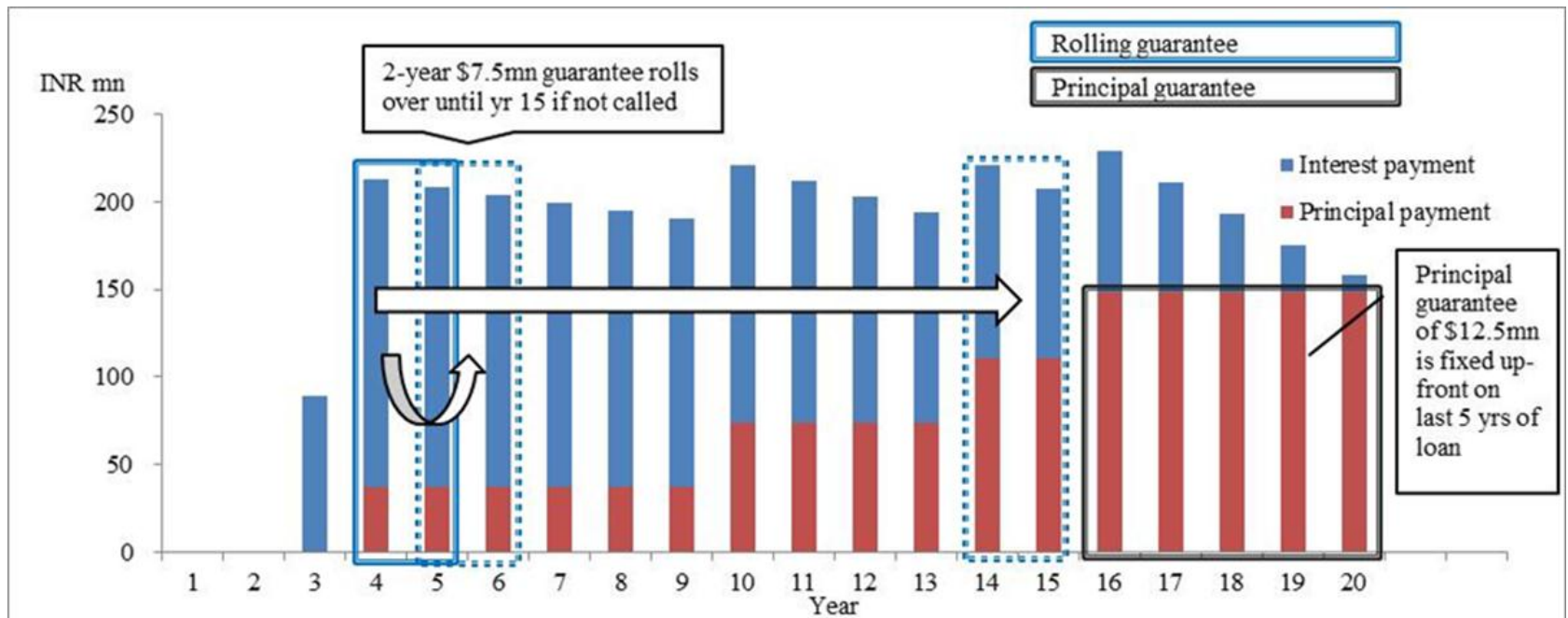




# Guarantee with Project Finance Structure

## Case: Road Concession in India

Illustration of Proposed Guarantee Coverage of Commercial Debt Service



# World Bank (IDA) Guarantee Fees for Private Sector Projects

All the Fees are payable to IDA by the Project Sponsor/Project Company  
(there in **NO charges payable by the Government**)

- **Guarantee Fee:** 0.75% p.a. of the Guarantee amount
- **Initiation Fee:** higher of 0.15% of the Guarantee amount or US\$100, 000, payable up-front (one time)
- **Processing Fee:** up to 0.5% of the Guarantee amount to cover out-of-pocket expenses, payable up-front (one time)

## **World Bank Guarantee Benefits to the Government**

- World Bank Guarantee **enhances the attractiveness of the project** by covering Government risks that private investors & lenders are not willing to take
- World Bank Guarantee **will NOT increase contingent liabilities of the Government** as the WB Guarantee only backstops Government undertakings to the project
- World Bank Guarantee **does NOT cost any fees to the Government**, as all the fees will be paid by the private project company/sponsors
- World Bank Guarantee can be **offered as an option to all the bidders to enhance the bidding** to help attract competitive bids and facilitate financing.
- World Bank Guarantee backed by Indemnity Agreement and World Bank's sector dialogue with the Government facilitates the participation of IFC, MIGA and other official lenders

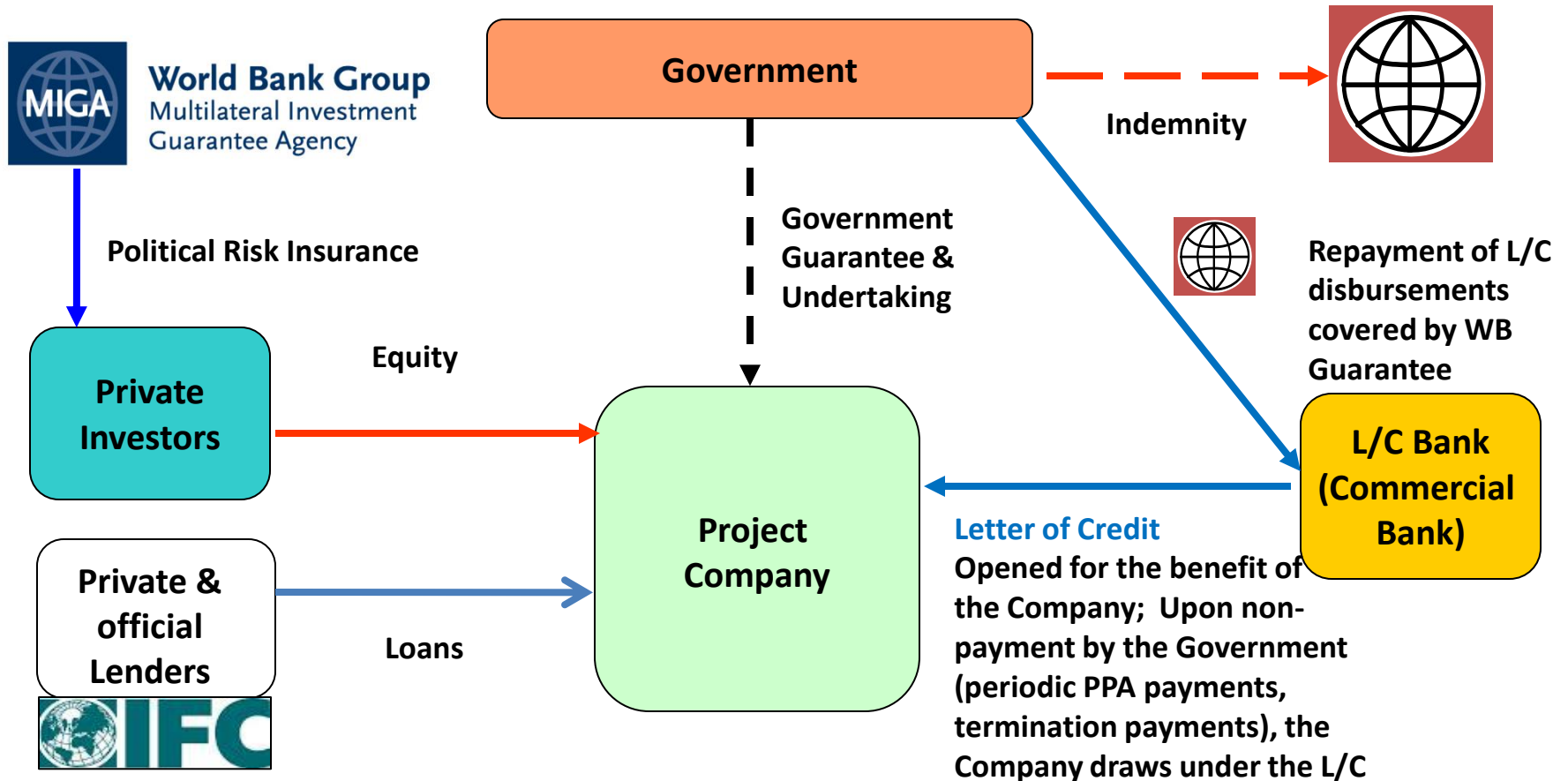
# World Bank Guarantee as the core of World Bank Group Support

- **World Bank Group** instruments are complementary and **World Bank Guarantee** with sovereign indemnity facilitates the participation of MIGA & IFC
  - Under the Indemnity Agreement, if there is a call under the World Bank Guarantee, and the World Bank pays, the Government will reimburse the World Bank “on demand or as the Bank may otherwise direct”
  - As the World Bank Guarantee only backstops Government’s undertaking already provided to the project, the provision of indemnity to the World Bank will not add any contingent liabilities
  - There has been NO call under World Bank Guarantees for public and private projects
  - **World Bank Guarantee facilitates the participation of not only private lenders/investors but also IFC, MIGA and other official financiers (DFIs, ECAs)**
- **IFC** provides **Loans** (and Equity) on a commercial basis
- **MIGA** provides **Political Risk Insurance (PRI)** cover for cross-border equity and debt investments for the following political risks on a commercial basis:
  - Currency transfer and inconvertibility
  - War and civil disturbance
  - Expropriation
  - **Breach of contract**

# World Bank Guarantee

## Example of joint support of WB Guarantee, MIGA PRI & IFC Loan

(WB covers PPA payments, IFC lends & MIGA covers termination payment)



Note: The provision of the above WB Guarantee will *indirectly* benefit equity investors, lenders, their insurers/guarantors, facilitating the mobilization of financing to the project



# Annex

# IBRD and IDA Guarantee Pricing (FY15)



Charge	Fee	IBRD Guarantees <sup>1</sup>		IDA Guarantees	
		Private Projects	Public Projects (Project or Policy Based)	Private Projects	Public Projects (Project or Policy Based)
Up-Front (One-time)	Front-End	25 bps of guarantee amount		N/A	
	Initiation	Greater of 15 bps of guarantee amount or USD100,000	N/A	Greater of 15 bps of guarantee amount or USD100,000	N/A
	Processing <sup>2</sup>	Up to 50 bps of guarantee amount	N/A	Up to 50 bps of guarantee amount	N/A
Recurring	Standby <sup>3</sup>	25 bps		0 bps	
	Guarantee <sup>4</sup>	50-100 bps <sup>5</sup>		75 bps	

1. Include IBRD Enclave Guarantees for IDA countries.
2. Determined on a case by case basis. On exceptional cases, projects can be charged over 50 bps of the guarantee amount.
3. Equivalent to the commitment charge on IBRD loans and IDA Credits, respectively. Does not apply to L/C.
4. The guarantee fee is charged on *Bank's financial exposure* under the guarantee, i.e. the present value of the guarantee (which is typically equal to outstanding guarantee amount during a callable period). Guarantee maturity calculations are determined based on the type and structure of a guarantee. For IBRD guarantees, the guarantee fee includes an annual maturity premium as follows:
  - a) 0 bps for below 8 years of average maturity and up to 15 years of final maturity;
  - b) 10 bps for 8–10 years of average maturity and up to 19 years of final maturity;
  - c) 20 bps for 10–12 years of average maturities and up to 23 years of final maturity;
  - d) 30 bps for 12–15 years of average maturity and up to 29 years of final maturity;
  - e) 40 bps for 15–18 years of average maturity and up to 35 years of final maturity; and
  - f) 50 bps for 18–20 years of average maturities and up to 35 years of final maturity.
5. In certain cases, IBRD enclave guarantees for IDA countries may have higher pricing than the above IBRD prices.



## **Guarantee Agreement**

Guarantee Agreement between IDA/IBRD and the guarantee beneficiary providing the terms and condition of the guarantee

## **Project Agreements**

Project Agreements between IDA/IBRD and the implementation entity (project company or the sovereign/sub-sovereign) with standard undertakings to IDA/IBRD such as compliance with World Bank safeguard policies, etc.

## **Indemnity Agreement**

Indemnity Agreement between a member country (the sovereign government) and IDA/IBRD, whereby the government will indemnify IDA/IBRD in the event IDA/IBRD makes payments under the guarantee



# Complementarity of Bank Group Guarantees



	World Bank	MIGA	IFC
<b>Risk Coverage</b>	Political & Credit Risks (Government/sub-sovereign contractual & debt obligations)	Political Risk & Credit Risk (NHSFO for Government/credible SOE)	Credit Risk
<b>Type of Eligible Investment Instruments for cover</b>	Any form of Debt (International or Domestic) Payment obligation arising from contract, law or regulation.	Equity & Debt (Foreign only)	Debt (International or Domestic)
<b>Product Characteristics</b>	Designed to meet market requirements	Choice of specific coverages	Designed to meet credit risk enhancement needs
<b>Pricing</b>	Loan equivalency, risk managed through size of Lending Programs	Market-based	Market-based
<b>Sovereign Indemnity</b>	Yes	No, but requires host country approval	No
<b>Eligibility Criteria</b>	Priority projects for the Government	Any Foreign Direct Investment	Private enterprises and creditworthy sub-nationals
<b>Major Clients</b>	Host Government	Private Sector	Private Sector
<b>Origination</b>	Mainly with client countries, and in support of CPF objectives	Mainly with private investors & lenders, on demand	Mainly with private investors & lenders, on demand



## THE CHALLENGE

- Largest private financing **for export** in the region at the time (\$1.45 Billion)
- Limited Funding Availability
  - Non-availability of US\$ and THB debt (about 500m) without cover
  - Non availability of long-term fixed-rate debt
  - Funding for Government of Laos Equity (about US\$ 90m);
- Cross Border Risk (selling power to Electricity Generating Authority of Thailand)
- High political and contractual risks in the host country, Lao PDR
- Lack of adequate financing plan and financing phase management

## THE SOLUTION

IDA Enclave Guarantee **mobilized private capital** by:

- ✓ Cover limited political risks in the host country
- ✓ Ensuring timely issuance and renewal of permits for construction and operation
- ✓ Mitigated the risk of change in legal and regulatory regime applicable to the project (laws, taxes, duties)
- ✓ Covered other specific government of Laos obligations of a sovereign nature

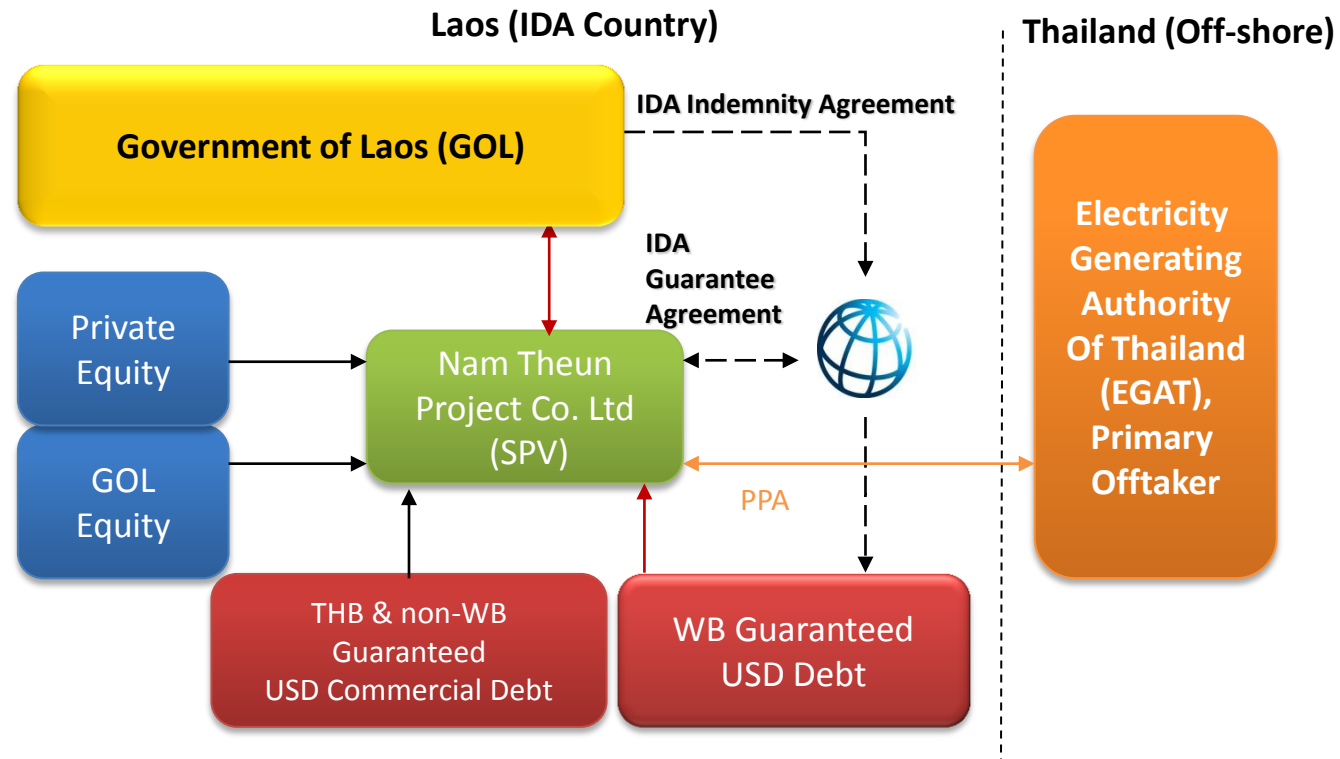
# IDA Guarantee: Nam Theun 2 Hydro, Lao PDR



- **Bank's Guarantee of USD 45 million on a 16.5 years debt tranche leveraged USD 1.5 billion in limited recourse financing (ratio of 1: 28)**
- Funding structure matches the cost and revenue profiles ( $\frac{1}{2}$  Thai Bhat (THB) -  $\frac{1}{2}$  USD)
- 27 financial institutions supporting the project

## Guarantee covered Lao PDR political Risks, and Government of Laos contractual obligations

- Project was the largest cross border project financing in East Asia
- Ground breaking for harmonizing IFI safeguards for a project
- **IDA project based Guarantee helped establish a track record for Lao PDR's performance for future private projects**





## THE CHALLENGE

- Severe Electricity shortage in the country with less than 40% of Nigeria's population has access to electricity.
- Insufficient and unreliable generation supply. Transmission and distribution networks suffer from severe capacity constraints.
- FGN initiated a comprehensive Roadmap for Power Sector Reform, aiming at expanding power generation while improving service delivery, revenue recovery and efficiency.

## THE SOLUTION

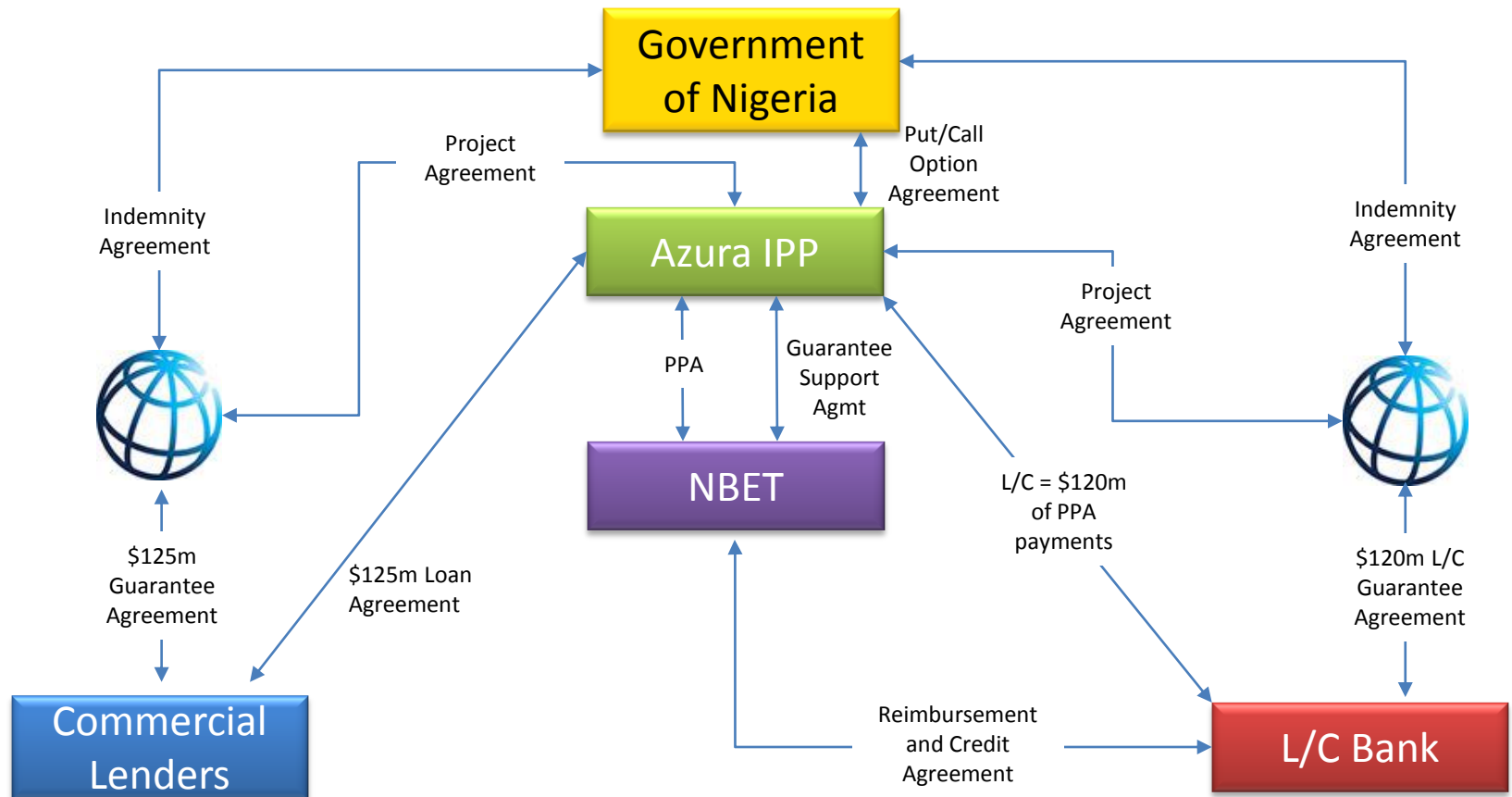
- ✓ WB provides guarantee support to help Nigeria attract private capital to its Power Sector Reform Roadmap by backstopping PPAs with newly-established NBET and PCOA with FGN (termination payments).
- ✓ WB Power Sector Guarantee Project envisages to facilitate private investments in IPPs with the issuance of **Series of IBRD Guarantees** (PRGs) up to US\$700 million .
- ✓ **Initial two IPPs: Azura and QIPP were recently approved in FY14. They are expected to add close to 1000 MW of installed generation capacity and 6,800 GWh per year of energy supplied by the grid. The World Bank Guarantee of US\$395 million would mobilize US\$1.45 Billion in private capital to finance the projects.**

# Loan and Payment Guarantee: Nigeria – Azura IPP



## Loan Guarantee Structure

## Payment Guarantee Structure



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